




Construction Policy Bulletin

CPB 05-3 Compensation Adjustment for Price Index Fluctuations

References: Standard Special Provisions Section 5, "Compensation Adjustments for Price Index Fluctuations"
Construction Manual Section 5-314, "Example of Contract Change Orders," (Example 5-3.11, [Adjustment in Compensation])

Effective Date: October 1, 2005

Approved:


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Background

To reduce the risk to contractors for large price increases in paving asphalt, Caltrans includes Section 5 "Compensation Adjustments for Price Index Fluctuations," in contract special provisions. This specification allows the resident engineer to increase or decrease payments to contractors for various contract items that contain paving asphalt when paving asphalt price fluctuation exceeds a threshold. Compensation is adjusted when the paving asphalt price fluctuates 10 percent from the month of the bid date to the month in which contract item containing paving asphalt was placed. Recently, several contractors notified Caltrans that the compensation adjustment has not been included in monthly estimates, but rather is being paid at the end of the project construction. It is important to make timely compensation adjustments, since the recent rapid increase in the cost of paving asphalt may place financial burdens on contractors and cause projects to exceed allocated supplemental and contingency funds.

Once the spike in oil prices is reached, the California Statewide Paving Asphalt Price Index will decline and adjustments in compensation may result in a credit to Caltrans. Also, recent changes to federal regulations have resulted in Caltrans no longer withholding retention on contracts with federal funds. With no contract retention and assuming the credit compensation adjustment being made at the completion of the project, Caltrans will incur additional costs associated with collecting accounts receivable.

This new policy requires prompt payment of paving asphalt adjustment of compensation to contractors to meet their cash flow needs, and to prevent over spending of contract contingency balance or additional costs in collecting accounts receivable.

Existing Procedure

Section 5-314, "Examples of Contract Change Orders," of the *Construction Manual* contains Example 5-3.11, "Adjustment for Asphalt Price Fluctuation (Adjustment in Compensation) for contracts that include Section 5 of the special provisions. It is included in projects with at least 4500 tonnes of asphalt concrete or 225 tonnes of paving asphalt and 50 or more working days.

New Procedure

For contracts that include special provision Section 5, "Compensation Adjustments for Price Index Fluctuations," initiate a contract change order at the beginning of the project to allow for timely compensation adjustment for paving asphalt during the contract. When the paving asphalt price in the California Statewide Paving Asphalt Price Index fluctuates more than 10 percent from bid date to placement date, provide an adjustment of compensation (increase or decrease) in the monthly estimate. This adjustment is applicable to contract items containing paving asphalt (asphalt concrete, asphalt concrete base, asphalt treated permeable base, paving asphalt or paving asphalt used as binder-pavement for reinforcing fabric).

The California Statewide Paving Asphalt Price Index is available at Division of Engineering Services web site:

http://www.dot.ca.gov/hq/esc/oe/asphalt_index/astable.html

Responsibility

Resident Engineer

- Initiates a contract change order within 30 days of contract approval for projects that include compensation adjustment for paving asphalt in the special provisions.
- Verifies that monthly compensation adjustments for paving asphalt are included in monthly estimates when the item of asphalt concrete, asphalt concrete base, asphalt treated permeable base, paving asphalt or paving asphalt used as binder-pavement reinforcing fabric is included in the monthly estimate.
- Monitors monthly expenditures and estimated future months of expenditures of compensation adjustment for paving asphalt to avoid exhausting the project supplemental funds and contingency balance. Notifies construction engineer and project manager if the project contingency balance will be depleted so that appropriate action can be taken.

This policy takes effect on the effective date, and will be posted on the Division of Construction's web site at:

<http://www.dot.ca.gov/hq/construc/cpb/cpbindx.htm>.